

ORIGINAL

OPEN MEETING AGENDA ITEM



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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS Arizona Corporation Commission

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KRISTIN K. MAYES, Chairman

AUG 10 2010

AZ CORP COMMISSION
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GARY PIERCE

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RDS

IN THE MATTER OF THE APPLICATION OF
JOHNSON UTILITIES, LLC, DBA JOHNSON
UTILITIES COMPANY FOR AN INCREASE IN
ITS WATER AND WASTEWATER RATES FOR
CUSTOMERS WITHIN PINAL COUNTY,
ARIZONA.

DOCKET NO. WS-02987A-08-0180

STAFF'S RESPONSE TO PIERCE
LETTER

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") files
is response to the letter from Commissioner Pierce dated August 4, 2010.

The recommendations of Staff and its positions have been outlined in its Opening and Reply
Briefs as well as its testimony, and its response dated June 11, 2010 which is incorporated herein by
reference. Staff maintains that the Recommended Opinion and Order ("ROO") is well reasoned and
should be adopted. Staff continues to recommend that the Company be allowed to recover from its
customers the Central Arizona Groundwater Replenishment District ("CAGR") fees through the
implementation of an adjustor mechanism, subject to specific enumerated conditions. Staff will also
respond to certain arguments made by Johnson Utilities, LLC ("Johnson" or "Company") in its filing
of August 9, 2010.

I. THE MISSING RATE BASE AND REVENUE REQUIREMENT NUMBERS.

Commissioner Pierce requested that the parties verify and supply certain numbers relative to
the rate base and revenue requirement under various scenarios. Staff has attached its response as
Exhibit 1.

With respect to the request regarding the proposed Johnson Amendment 12, Staff continues to
oppose the adoption of Johnson 12. Additionally Staff is unable to verify the effect of Pierce
proposed Modified Johnson 12. Johnson 12 disregards certain findings in the ROO regarding affiliate
profit and post test year plant. Johnson 12 also contemplates a series of adjustments that were not

1 considered by Staff or the ROO. Because of these issues, Staff would be unable to calculate an
2 accurate revenue requirement or rate base without access to the Company's underlying work papers
3 that support Johnson 12.

4 **II. THE EFFECTS OF A NEGATIVE RATE BASE.**

5 The Company continues to argue that it needs to avoid the "dire consequences" of a negative
6 rate base. The Company's contends that a negative rate base and operating margin will:

- 7 • make it difficult to attract additional equity
- 8 • make it difficult or impossible to borrow money or increase the cost of borrowing
- 9 • reduce depreciation expense thereby decreasing cash flow, making it much more
10 difficult to fund plant replacements in the future.

11 As the record shows, Johnson has excess capacity in its water and wastewater systems. The Company
12 even concedes that it has excess capacity in its amendment Johnson 12. The record in this matter
13 supports the Staff determination that in using Staff's 5 year planning horizon, Staff determined that
14 the Company has enough capacity in both the Water division and wastewater divisions to be able to
15 service the potential growth in its service area. Johnson's arguments for the need for additional equity
16 and funds for plant are speculative at best.

17 Johnson is mistaken in its belief that a reduction in depreciation expense will decrease cash
18 flow. Depreciation expense is a non-cash item and has no effect on the Company's ability to meet its
19 cash flow obligations. Further the purpose of depreciation expense is not to fund plant replacement.¹

20 **III. HOOK UP FEE TARIFF.**

21 The Company continues to argue for the continuation of a hook up fee tariff. Because of the
22 magnitude of the CIAC balances, Staff recommended that the hook-up fee be discontinued. Should
23 the Company require a hook up fee tariff in the future, there is nothing that will preclude the
24 Company from filing for such a tariff when there is an actual need.

27 ¹ C.F. Phillips, Jr., The Regulation of Public Utilities at 271 (3d ed. 1993).

1 RESPECTFULLY SUBMITTED this 10th day of August, 2010.

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7 Original and thirteen (13) copies
8 of the foregoing were filed this
10th day of August, 2010, with:

9 Docket Control
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11 Copy of the foregoing mailed and/or
12 e-mailed this 11th day of August, 2010, to:

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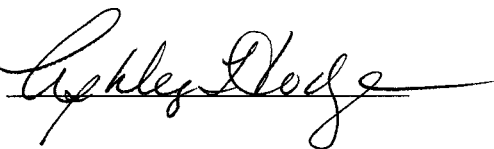
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EXHIBIT 1

Exhibit 1

Alternatives	Water Rate Base	Wastewater Rate Base	Revenue Requirement	CAGR Adjustor \$1.297 million
ROO	(\$13,682,831)	\$136,562	\$23,533,291	N/A
ROO & Hearing 1	(\$13,682,831)	\$136,562	\$22,098,089	N/A
Mayes 3	(\$418,155)	\$136,562	\$18,475,690	N/A
Mayes 4	(\$13,682,831)	\$136,562	\$20,908,164	N/A
Johnson 12	\$2,548,471	\$14,206,626	\$20,974,722	\$22,272,617
Pierce 1	N/A	N/A	\$23,475,633	N/A
Pierce 2	(\$6,751,753)	\$136,562	\$22,315,673	N/A

Note: Staff's calculations are based on the Recommended Opinion and Order and Hearing Amendment 1.